

## Message Text

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44

ACTION EUR-12

INFO OCT-01 ISO-00 EURE-00 SSO-00 NSCE-00 USIE-00 INRE-00

AEC-07 AID-05 CEA-01 CIAE-00 CIEP-02 COME-00 DODE-00

EB-07 FEAE-00 FPC-01 H-02 INR-07 INT-05 L-02 NSAE-00

NSC-05 OMB-01 PM-03 SAM-01 OES-05 SP-02 SS-15 STR-04

TRSE-00 FRB-01 PA-02 PRS-01 /092 W

----- 082896

O 181810Z FEB 75

FM AMEMBASSY OTTAWA

TO SECSTATE WASHDC IMMEDIATE 5673

UNCLAS SECTION 1 OF 2 OTTAWA 567

EO 11652 NA

TAGS ENRG CA US

SUBJ ENERGY: NATURAL GAS EXPORTS

1. TORONTO GLOBE AND MAIL OF FEBRUARY 18 CARRIES HEADLINE  
"OTTAWA IS FACING DRASTIC RETALIATION IF IT CUTS EXPORTS OF  
GAS, U.S. SAYS". FULL TEXT OF RUSS MUNRO WASHINGTON  
DATELINE STORY IS AS FOLLOWS:

BEGIN QUOTE: OTTAWA WILL RISK DRASTIC U.S. RETALIATION IF IT  
BREAKS NATURAL GAS EXPORT CONTRACTS, A U.S. STATE DEPARTMENT  
OFFICIAL WARNED IN AN INTERVIEW.

THE EXTRAORDINARILY FRANK WARNING WAS VOICED APPARENTLY  
BECAUSE U.S. ENERGY OFFICIALS FEAR THAT OTTAWA SOON MAY  
DECLARE THAT AN IMMINENT SHORTAGE OF NATURAL GAS WILL FORCE  
IT TO CURTAIL CONTRACTED-FOR EXPORTS TO THE UNITED STATES.

THE U.S. POSITION IS THAT SINCE OTTAWA APPROVED LONG-TERM  
EXPORT CONTRACTS, CANADA AND THE UNITED STATES MUST SHARE  
ANY SHORTAGE OF CANADIAN NATURAL GAS ON AN EQUAL,  
PROPORTIONAL BASIS.

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THE STATE DEPARTMENT OFFICIAL LISTED A NUMBER OF SEVERE RETALIATORY STEPS THAT THE FORD ADMINISTRATION OR CONGRESS COULD TAKE IF CANADA UNILATERALLY BREAKS THE CONTRACTS AND DECLARES THAT THE UNITED STATES MUST BEAR THE FULL BRUNT OF THE SHORTAGE.

ANY SPECIFIC RETALIATORY STEP WOULD HAVE TO BE APPROVED BY CONGRESS OR THE PRESIDENT. BUT THE STATE DEPARTMENT OFFICIAL SAID U.S. ACTION COULD RANGE FROM CUTTING OFF CANADIAN OIL PIPELINES RUNNING THROUGH THE UNITED STATES TO ENDING U.S. COAL SHIPMENTS TO ONTARIO STEEL MILLS AND ELECTRICAL GENERATING PLANTS.

THE OFFICIAL EXPRESSED CONCERN THAT HIS WARNING COULD BACKFIRE AND BE LABELLED A THREATENING INTERFERENCE IN CANADIAN POLITICS. BUT AT THE SAME TIME, HE SAID, "IT IS VITAL THAT WE LEAVE THE CANADIAN GOVERNMENT IN NO DOUBT ABOUT OUR DETERMINATION TO TAKE DECISIVE ACTION IF THE CONTRACTS ARE BROKEN."

HIS WARNINGS ABOUT THE DANGER OF U.S. RETALIATION WERE LATER BACKED BY A SENIOR STATE DEPARTMENT OFFICIAL AS WELL AS BY AN OFFICIAL IN THE U.S. FEDERAL ENERGY ADMINISTRATION.

ALL THREE MEN LISTED TWO BASIC REASONS WHY OTTAWA'S BREAKING OF NATURAL GAS EXPORT CONTRACTS WOULD PROVOKE A MUCH MORE STRENUOUS U.S. REACTION THAN THE EARLIER REACTIONS TO THE INCREASE IN THE PRICE OF CANADIAN OIL AND GAS EXPORTS AND TO THE PHASE-OUT OF CANADIAN OIL EXPORTS.

FIRST, NEARLY ALL THE NATURAL GAS IS BEING EXPORTED UNDER LONG-TERM CONTRACTS THAT DON'T EXPIRE UNTIL THE 1980S AND EARLY 1990S. RESIDENTIAL AND INDUSTRIAL USERS IN THE NORTHERN AND WESTERN UNITED STATES HAVE THEREFORE BECOME DEPENDENT ON CANADIAN NATURAL GAS ON THE ASSUMPTION THAT THE LONG-TERM CONTRACTS WOULD BE HONORED. CANADA'S EXPORT COMMITMENTS FOR CRUDE OIL, ON THE OTHER HAND, ARE UNCLASSIFIED

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MADE EVERY 30 DAYS.

THE SECOND FUNDAMENTAL REASON BEHIND THE U.S. WARNINGS IS THAT THERE IS NO ALTERNATIVE SOURCE OF NATURAL GAS - OR AN ALTERNATIVE FUEL FOR THAT MATTER - THAT IS READILY AVAILABLE. U.S. ENERGY EXPERTS GENERALLY AGREE THAT THE UNITED STATES IS GOING TO FACE A SEVERE SHORTAGE OF NATURAL GAS FOR

THE FORESEEABLE FUTURE NO MATTER WHAT DOMESTIC  
POLICIES IT PURSUES OR WHAT ATTEMPTS IT MAKES TO  
IMPORT OVERSEAS NATURAL GAS IN LIQUEFIED FORM.

THE STATE DEPARTMENT OFFICIAL CANDIDLY ACKNOWLEDGED THAT THE  
UNITED STATES DOESN'T HAVE A GOOD LEGAL CASE. HE SAID CANADA'S  
NATIONAL ENERGY BOARD HAS THE LEGAL POWER TO MODIFY OR EVEN  
ABROGATE THE NATURAL GAS EXPORT CONTRACTS. HE SAID THE ISSUE  
IS POLITICAL, ECONOMIC, AND ABOVE ALL, ONE OF FAIRNESS-  
THAT IS, THE FAIRNESS OF BREAKING LONG-TERM CONTRACTS.

THE U.S. GOVERNMENT'S CONCERN HAS ARISEN RECENTLY,  
THE OFFICIAL SAID, BECAUSE IT SEES SIGNS THAT OTTAWA  
MAY HANDLE NATURAL GAS EXPORTS THE SAME WAY IT HANDLED  
CRUDE OIL EXPORTS. THE NEB, HE NOTED, IS STUDYING THE  
SUPPLY AND DEMAND SITUATION IN CANADA. IF IT FOLLOWS  
THE SAME PATH IT DID WITH CRUDE OIL, IT WILL DISCOVER  
AN IMMINENT DOMESTIC SHORTAGE AND RECOMMEND IN EFFECT  
THAT THE UNITED STATES BEAR ITS ENTIRE BRUNT.

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O 181810Z FEB 75

FM AMEMBASSY OTTAWA

TO SECSTATE WASHDC IMMEDIATE 5674

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HE ADDED THAT CANADIAN GOVERNMENT OFFICIALS ARE  
SUGGESTING PRIVATELY THAT OTTAWA WILL BE FORCED TO  
CUT BACK CONTRACTED-FOR GAS EXPORTS BECAUSE IT WILL

BE UNABLE POLITICALLY TO ASK CANADIAN CUSTOMERS TO BEAR THEIR SHARE OF THE SHORTAGE.

HE SAID U.S. OFFICIALS HAVE RESPONDED BY MAKING IT CLEAR THAT THE UNITED STATES WILL INSIST THAT ANY SHORTAGE BE SHARED ON A PROPORTIONAL, OR PRO RATA, BASIS. HOWEVER, HE SAID, THE U.S. GOVERNMENT BELIEVES THAT THERE IS REALLY NO NEED FOR ANY SHORTAGE TO DEVELOP.

IF OTTAWA WERE TO ALLOW THE DOMESTIC CANADIAN PRICE OF NATURAL GAS TO RISE TO MARKET LEVELS, HE SAID, WASTEFUL CONSUMPTION WOULD BE DISCOURAGED WHILE EXPLORATION AND PRODUCTION OF NEW NATURAL GAS WOULD BE ENCOURAGED. IN ADDITION, HE SAID, THE UNITED STATES WILL BE WARY OF ANY NEB MANIPULATION OF PRODUCTION RESERVE STATISTICS WHICH HE SAID COULD PRODUCE A "SHORTAGE" ON PAPER OVERNIGHT.

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HE INDICATED THAT THE UNITED STATES HAS ACCEPTED THE PRINCIPLE THAT IT SHOULD PAY MARKET PRICES FOR CANADIAN NATURAL GAS BUT HE SUGGESTED THAT THE UNITED STATES WILL NOT ACCEPT ANY CANADIAN ATTEMPT TO PUSH EXPORTS PRICES TO AN ARTIFICIALLY (SIC) HIGH LEVEL WELL ABOVE WORLD MARKET PRICES. SUCH A MOVE HAS BEEN SUGGESTED AT THE CURRENT NEB HEARINGS.

THE OFFICIAL WAS ASKED WHY NO ACTION HAS BEEN TAKEN AGAINST BRITISH COLUMBIA FOR ITS RECENT CUTBACK OF NATURAL GAS EXPORTS TO PACIFIC COAST STATES. HE REPLIED THAT THE B.C. CASE IS CONSIDERED SPECIAL "BECAUSE THE KIND OF GOVERNMENT THAT IS THERE DOESN'T EXIST ELSEWHERE IN CANADA."

HOWEVER, HE ADDED, THE STATE DEPARTMENT IS ENGAGING IN MILD RETALIATION BY HOLDING UP A B.C. REQUEST FOR U.S. AVIATION AND RESIDUAL FUEL IN EXCHANGE FOR CANADIAN CRUDE OIL.

ANOTHER STATE DEPARTMENT OFFICIAL SAID THE SITUATION IS ALSO COMPLICATED BY THE FACT THAT WASHINGTON APPRECIATES HOW OTTAWA HAS "GONE ALL OUT" TO ENCOURAGE THE B.C. GOVERNMENT TO CONSERVE DOMESTIC GAS CONSUMPTION IN ORDER TO EXPORT AS MUCH GAS AS POSSIBLE UNDER EXISTING CONTRACTS. END QUOTE.

2. SECOND FRONT PAGE WASHINGTON DATELINED ARTICLE FROM WASHINGTON BUREAU OF THE GLOBE AND MAIL UNDER

CAPTION "PACT BREACH COULD WRECK ARCTIC PLAN" READS  
AS FOLLOWS:

BEGIN QUOTE: FORD ADMINISTRATION OFFICIALS AS WELL  
AS INUSTRY AND CONGRESSIONAL FIGURES GENERALLY AGREE  
THAT OTTAWA'S BREAKING OF NATURAL GAS EXPORT CONTRACTS  
PROBABLY WOULD SPELL THE END OF THE ARCTIC GAS PROJECT.

WHILE TALK OF SUCH SPECIFIC U.S. RETALIATION AS  
CUTTING OFF COAL SUPPLIES TO ONTARIO IS STILL IN THE  
SPECULATIVE STAGE, IT IS PREDICTED WIDELY THAT  
OTTAWA'S BREAKING OF THE GAS CONTRACTS WOULD MAKE IT  
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IMPOSSIBLE TO GET CONGRESSIONAL APPROVAL FOR A  
CANADIAN-U.S. TREATY THAT WOULD GUARANTEE THE UN-  
IMPAIRED OPERATION OF OIL AND GAS PIPELINES WHICH  
CROSS THE BORDER.

SUCH A TREATY IS VIEWED AS A PREREQUISITE FOR  
THE PROPOSED ARCTIC GAS PIPELINE THAT WOULD BRING  
ALASKAN AND NORTHERN CANADIAN NATURAL GAS TO MARKET  
IN SOUTHERN CANADA AND THE LOWER 48 STATES.

"IF CANADA CHOPS US ON GAS, THE CHANCES OF  
GETTING THAT TREATY THROUGH CONGRESS ARE ABOUT NIL,"  
A STATEMENT DEPARTMENT OFFICIAL SAID. AS FAR AS THE  
CURRENT TREATY NEGOTIATIONS ARE CONCERNED, HE SAID,  
"WE'D PROBABLY BREAK THEM OFF."

"IF NO DEAD," AN AIDE TO A MIDWEST SENATOR SAID  
YESTERDAY, "THE ARCTIC GAS LINE WOULD BE ONE STEP  
AWAY FROM THE GRAVE." END QUOTE.  
PORTER

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